

**REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND  
PERFORMANCE INFORMATION OF MAKHADO MUNICIPALITY FOR THE  
YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the accompanying financial statements of the Makhado Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages X to XX.

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Statements of Generally Recognised Accounting Practices (Statements of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
4. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Makhado Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

**Basis for disclaimer of opinion**

**Corresponding figures**

5. In my previous audit report dated 28 November 2008, I was unable to express an audit opinion on the annual financial statements of the municipality for the year ended 30 June 2008. The qualification matters have not been resolved while no alternative procedures were possible and my audit report is disclaimed regarding the opening balances as listed here under:
  - Unauthorised expenditure amount to R20.7 million

- Revenue amounting to R172.9 million
- Receivables amounting to R68 million
- Payables amounting to R11.8 million

#### **Cash and cash equivalents**

6. Included in the bank overdraft to the amount of R22.8 million, are reconciling items of un-presented cheques and outstanding deposits amounting to R125 million and R102 million respectively. Sufficient and appropriate evidence could not be provided for the reconciling items
7. Consequently, I was unable to conclude the impact, if any, the reconciling items have on the accounts of the municipality. Alternative procedures were considered but the municipality's records did not permit it.

#### **Provisions**

8. The municipality created a provision of R1.7 million for the rehabilitation of landfill sites which is required in terms of *GRAP 19 - Provisions, contingent liabilities and contingent assets* and *GRAP 17 - Property plant and equipment*. The lack of sufficient and appropriate evidence did not permit me to determine whether the provision has been provided for correctly, consequently the impact on provisions and property, plant and equipment as disclosed in the financial statements could not be determined.
9. Further, the impact on prior years accumulated surplus in terms of *GRAP 03 - Accounting policies, changes in accounting estimates and errors* too could not be determined.

#### **Property, plant and equipment (PPE)**

10. Assets amounting to R7.6 million were removed from the asset register, due to management not able to trace these assets from the asset register to the physical assets. I could not obtain a council resolution approving the removal of these assets from the asset register.
11. Due to the inadequacy of the description of land in the asset register and valuation roll, I could not determine the completeness of land recorded in the annual financial statements, amounting to R0.8 million.
12. Supporting documentation could not be provided for electricity and road related projects amounting to R2.6 million. Alternative procedures were considered but the municipality's records did not permit it.
13. The municipality could not provide me with appropriate evidence to support the recording of infrastructure projects with a projected balance of R1.2 million in the general ledger.
14. There is a difference of R2 million between the accumulated depreciation recorded in the asset register and the financial statements, management could not provide me with reasons for the differences.

#### **Revenue**

15. A difference of R24.1 million exists between the annual financial statements and cash receipted from consumers. Management could not provide me with reasons for the differences.

### **Trade and other payables**

16. I could not determine the completeness of retention amounting to R3.3 million as disclosed in note 5 to the financial statements, I could not obtain sufficient evidence that all the projects were accounted for. Alternative procedures were considered but the municipality's records did not permit it.

### **Disclaimer of opinion**

17. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

### **Other matters**

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

### **Other information included in the annual report**

18. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

### **Unaudited supplementary schedules**

19. The supplementary information set out on pages 30 to 37 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **Restatement of corresponding figures**

20. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of correcting my prior year audit findings during the current year in the financial statements of the Makhado Municipality at, and for the year ended, 30 June 2008.

### **Non-compliance with applicable legislation**

#### **Local Government: Municipal Finance Management Act**

21. In terms of section 166 of the MFMA each municipality must have a formally established audit committee which inter alia must meet at least four times a year. Makhado municipality did not establish an audit committee during the year under review.

#### **Municipal Supply Chain Management Regulation (SCMR)**

22. The municipality did not comply with the provisions of section 41 and 42 of the Municipal Supply Chain Management Regulations.

### **Governance framework**

23. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the

accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

#### Internal control deficiencies

24. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for disclaimer of opinion	CE	RA	CA	IC	M
5	Corresponding figures	1-7	1-5	1-7	1-3	1-3
6-7	Cash & cash equivalents	1-7	1-5	1-7	1-3	1-3
8-9	Provisions	1-7	1-5	1-7	1-3	1-3
10-14	Property, plant & equipment	1-7	1-5	1-7	1-3	1-3
15	Revenue	1-7	1-5	1-7	1-3	1-3
16	Trade and other payables	1-7	1-5	1-7	1-3	1-3

25. The general financial management functions is the responsibility of the accounting officer, assisted by top management in managing and co-ordinating the financial administration of the municipality and exercising financial management responsibilities within their respective areas of responsibility.

26. Reasonable steps were not taken to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control over the whole spectrum of municipal activities. This impacted negatively on all five root causes in the table below.

Legend	
<b>CE = Control environment</b>	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
<b>RA = Risk assessment</b>	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
<b>CA = Control activities</b>	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4

Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
<b>IC = Information and communication</b>	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
<b>M = Monitoring</b>	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

### Key governance responsibilities

27. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.		✓
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	• The municipality had an audit committee in operation throughout the financial year.		✓
	• The audit committee operates in accordance with approved, written terms of reference.		✓
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		✓
7.	Internal audit		
	• The municipality had an internal audit function in operation throughout the financial year.	✓	
	• The internal audit function operates in terms of an approved internal audit plan.		✓
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		✓
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		✓

No.	Matter	Y	N
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	✓	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.		✓
<b>Issues relating to the reporting of performance information</b>			
14.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
15.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
16.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Municipality against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA).		✓
17.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

28. The unavailability of management and key officials during the audit made it difficult for the auditors to be provided with the required information timeously.
29. Amendments to the financial statements were made by the consultants due to the lack of knowledge of GRAP basis of accounting in the finance section. As a result of a lack of skills, key vacancies within the finance department, a proper quality review of the financial statements could not be performed by the internal audit unit prior to submission for audit purposes.
30. Management's inadequate monitoring and supervision over financial reporting and the compilation of financial statements which was performed by consultants necessitated numerous amendments to the financial statements, which emanated from a lack in the design and implementation of internal control in respect of financial and risk management as well as compliance with the applicable laws and regulations.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

31. I have reviewed the performance information as set out on pages xx to xx.

### The accounting officer's responsibility for the performance information

32. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### The Auditor-General's responsibility

33. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
34. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

35. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

#### **Findings on performance information**

##### **Non-compliance with regulatory requirements**

##### **Lack of adoption of a performance management system**

36. The Makhado Municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

#### **APPRECIATION**

37. The assistance rendered by the staff of the Makhado Municipality during the audit is sincerely appreciated.

*AUDITOR - GENERAL*

Polokwane

11 March 2010



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*